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Program Description: Disaster Assistance Loan Program

The Disaster Assistance program offers a low-interest, long-term loan program to disaster victims in a declared disaster area. These loans are the primary source of federal funding for the long-term recovery efforts of the disaster victims. There are three types of disaster loan available:

- Home Disaster Loans: Loans to homeowners or renters to repair or replace disaster damages to real estate and/or personal property owned by the victim. Renters are eligible for their personal property losses.

- Business Physical Disaster Loans: Loans to businesses to repair or replace disaster damages to property owned by the business, including real estate, machinery and equipment, inventory and supplies. Businesses of any size are eligible. Non-profit organizations such as charities, churches, private universities, etc. are also eligible.

- Economic Injury Disaster Loans (EIDL): Loans for working capital to small businesses and small agricultural cooperatives to assist them through the disaster recovery period. EIDL assistance is available only to applicants with no Credit Available Elsewhere – if the business and its owners cannot provide for their own recovery from non-government sources.

Additionally, there is a fourth program that is offered that is not disaster related. The Military Reservist Economic Injury Disaster Loan Program (MREIDL). The purpose of the MREIDL is to lend funds to eligible small businesses to meet their ordinary and necessary operating expenses that they could have met, but are now unable to meet, because an essential employee was "called up" to active duty in their role as a military reservist. Only small businesses without credit available elsewhere are eligible for this program

Credit Requirements

- Repayment – SBA's disaster assistance is in the form of loans. Applicants must show the ability to repay all loans and must have a satisfactory credit history.

- Collateral – Collateral is required for all physical loss loans over $10,000 and all EIDL loans over $5,000. SBA takes real estate as collateral where it is available. Applicants do not need to have full collateral; SBA will take what is available to secure each loan.

Interest Rates

- By law, the interest rates depend on whether each applicant has credit available elsewhere. An applicant does not have credit available elsewhere when SBA determines that the applicant does not have sufficient funds or other resources, or the ability to borrow from non-government sources, to provide for its own disaster recovery. An applicant that SBA determines can so provide for its own recovery has credit available elsewhere. There is an interest rate cap for each of these loans (4 percent cap for applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere).

- Interest rates are determined by formulas set by law, and may vary over time with market conditions. Currently, the following interest rates are effective :

	No Credit Available Elsewhere	Credit Available Elsewhere
Home Loans	2.875%	5.750%
Business Loans	4.000%	8.000%
Non-profit organizations	4.000%	5.250%
Economic Injury Disaster Loans	4.000%	N/A

Note: Rates as of 3rd quarter FY 2007, effective for disasters occurring on or after 04/10/07.

Loan Term

- The law authorizes loan terms up to a maximum of 30 years. However, for businesses with credit available elsewhere, the law limits the loan term to a maximum of 3 years.

- SBA determines the term of each loan in accordance with the borrower's ability to repay. Based on the financial circumstances of each borrower, SBA determines an appropriate installment payment amount, which in turn determines the actual term.

Loan Amount Limits

- Home Loan amounts are limited by SBA regulation to $200,000 to repair/replace real estate and $40,000 to repair/replace personal property. The actual amount of each loan, up to these maximums, is limited to the verified uninsured disaster loss. Refinancing of existing mortgages on homes is eligible in some cases up to the amount of the loan for real estate repair/replacement. Loan amounts may be increased by up to 20% for devices to mitigate against damage to the real property from the same type of disaster event.

- Business Loan amounts are limited by law to $1,500,000 for real estate, machinery and equipment, inventory and all other physical losses. The actual amount of each loan, up to this maximum, is limited to the verified uninsured disaster loss. Refinancing of existing mortgages or liens on real estate and machinery and equipment is eligible in some cases up to the amount of the loan for real estate and machinery and equipment repair/replacement. Loan amounts may be increased by up to 20% for devices to mitigate against damage to the real property of the same type as the disaster.

- Economic Injury Disaster Loan (EIDL) amounts are limited by law to $1,500,000. The actual amount of each loan, up to this maximum, is limited to the actual economic injury as calculated by SBA, not compensated by business interruption insurance or otherwise, and beyond the ability of the business and/or its owners to provide. Economic injury loans are limited to small businesses without "credit available elsewhere".

The $1,500,000 statutory limit for business loans applies to the combination of physical and economic injury, and also applies to all disaster loans to a business and its affiliates. If a business is a major source of employment, SBA has authority to waive the statutory limit. The maximum loan limit was $10,000,000 for businesses located in the "declared disaster" areas as a result of the 9-11 terrorist attacks.

<u>Loan Eligibility Restrictions</u>

- Uninsured Losses. Only uninsured or otherwise uncompensated disaster losses are eligible. Any insurance proceeds that are required to be applied against outstanding mortgages are not considered available to fund disaster repairs and do not reduce loan eligibility. However, any insurance proceeds voluntarily applied to any outstanding mortgages do reduce loan eligibility.

- Ineligible Property. Secondary homes, personal pleasure boats, airplanes for personal use, and recreational vehicles are not eligible for losses under the program. Property such as antiques and collections is eligible only to the extent of its functional value. Amounts for landscaping, swimming pools, etc. are limited.

- Noncompliance. Applicants who have not complied with the terms of previous SBA loans are not eligible. This includes prior borrowers who did not maintain required flood insurance.

<u>Refinancing</u>

SBA can refinance all or part of prior mortgages, evidenced by a recorded lien, when the applicant (1) does not have credit available elsewhere, (2) has suffered substantial uncompensated disaster damage (40% or more of the value of the property), and (3) intends to repair the damage. Refinancing of prior debts improves the victim's ability to afford the SBA disaster loan.

<u>Relocation</u>

Use of SBA disaster loans for relocating is subject to limitations. Generally, victims may relocate where they need to do so for reasons beyond their control. If the victim is forced by state or local authorities to relocate, the amount of eligibility is the replacement cost of the property that must be abandoned.

Insurance Requirements

To protect each borrower and SBA, SBA requires borrowers to obtain and maintain appropriate insurance. Borrowers of all secured loans (physical loans over $10,000 and economic injury loans over $5,000) must purchase and maintain full hazard insurance for the life of the loan. Borrowers whose property is located in a special flood hazard area must purchase and maintain flood insurance for the full insurable value of the property for the life of the loan.

Generally SBA requires "like peril" insurance coverage for the disaster damaged property. For example, if a home was damaged as a result of a hurricane SBA would require windstorm insurance coverage in addition to the standard homeowner's policy.

First payment due date

Generally, disaster assistance loans have a first payment due date five months after the date of the promissory note.

Deferments greater than five months have been used for loans made in response to larger disasters where recovery and rebuilding efforts have been delayed. Alternative grace periods have been used for loans made in response to Hurricane Andrew (generally 12 months) and the Northridge earthquake (generally 18 months), and the 9-11 terrorist attack (generally 24 months).

Simple interest accrues during the deferment period on the disbursed principal balance. (EIDLs approved for the 9-11 declaration had a 24 month period where no interest was accrued.) The payment to amortize the loan is calculated as the face amount of the loan plus interest that would accrue during the first payment deferment period and is rounded up to a whole dollar amount.

Payment deferment

While in Loan Servicing, payments on disaster assistance loans may be deferred individually or categorically. Individual deferments may occur when a borrower has short-term difficult in making payments, such as loss of employment. In such instances, deferments may be granted on a one-time basis for a period of up to one year. Categorical deferments may occur when a geographic area is stricken more than once. In such instances, categorical deferments may be granted on previous disaster assistance loans in the affected area for a period of up to one year, as is the case with Hurricane Katrina.

During the period of deferment, interest continues to accrue.

Unpaid balances at the end of the term of the loan

In instances where a deferment was granted, an unpaid principal balance may exist at the end of the scheduled maturity date for the loan. When this occurs, a lump sum payment is generally made. However, an extension to the term of the loan may be made if the maturity was not at the 30 year regulatory maximum.

Generally, this does not take place because (a) the most common loan term is 30 years and (b) when payments are rounded up to a whole dollar amount, the scheduled payments on long-term loans will normally result in full amortization 1-2 years in advance of the maturity date. In addition, for loans that are not charged off due to borrower default, there is a substantial prepayment rate. These factors combine to substantially reduce the frequency of lump-sum payments at the end of the normal term of the loan.